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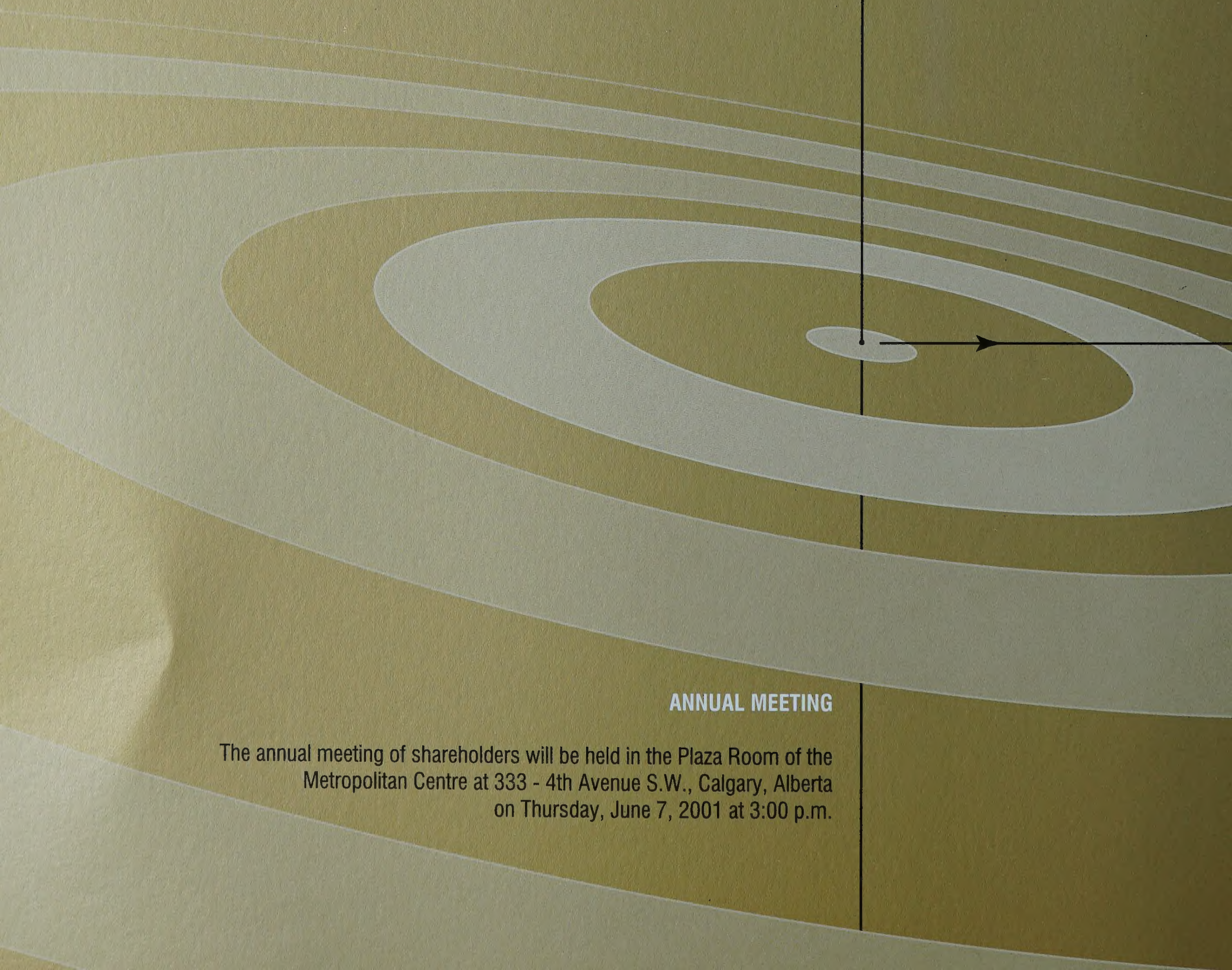
TEMPEST
Energy Corp.

VISION – STRATEGY – ACTION

ANNUAL REPORT 2000

CONTENTS

Corporate Profile/Milestones 01
President's Letter to Shareholders 02
Operations Review 08
Management's Discussion & Analysis 10
Auditors' Report to the Shareholders 14
Financial Statements 15
Directors/Management 22



ANNUAL MEETING

The annual meeting of shareholders will be held in the Plaza Room of the Metropolitan Centre at 333 - 4th Avenue S.W., Calgary, Alberta on Thursday, June 7, 2001 at 3:00 p.m.

CORPORATE PROFILE

Tempest Energy Corp. is an oil and gas exploration, development and production enterprise operating primarily in Alberta. This emerging Canadian junior has been public since December 2000. Tempest's goal is to maximize shareholder value by the successful exploration and exploitation of internally-generated opportunities. As a true full-cycle exploration and production company, Tempest is set to generate ongoing growth and value primarily through the drillbit. This approach will, on occasion, be further strengthened by strategic asset purchases, designed to consolidate our position within Tempest focus areas.

Tempest's success and continuing growth are based upon a strong financial framework. The Company is backed by a management team whose unique combination of technical expertise, field experience and proven track record ensures a strong future for the Company.

Tempest's class A and class B shares trade on the Canadian Venture Exchange under the symbols TMY.A and TMY.B.

MILESTONES

ASSEMBLED MANAGEMENT AND TECHNICAL TEAM.

•

All staff have personally invested in Tempest and are strongly motivated to achieve the best-possible performance.

COMPANY IS FINANCIALLY STRONG.

•

Tempest raised $7.1 million from its initial public offering based on an A-B share structure.

•

Secured financial sponsorship through GMP.

TEMPEST HAS AN INITIAL INVENTORY OF INTERNALLY GENERATED PROSPECTS WHICH CAN BE REALIZED THROUGH CROWN LAND SALES AND FARM-IN ARRANGEMENTS.

•

Tempest management spent considerable time evaluating and selecting focus areas.

•

The Company has completed acquisitions at Fort Saskatchewan and Cooking Lake and most importantly, negotiated a key farm-in at Chipman, Alberta.

President's Letter to Shareholders

It gives me great pleasure to present shareholders of Tempest Energy Corp. with the Company's first annual report. We have had a very exciting and rewarding few months as we prepared and closed Tempest's initial public offering - in itself a major success given the skepticism of the capital markets towards most new equity over the past year - while beginning to seek and find suitable prospects to begin fulfilling our exploration mandate.

The greatest challenge, however, was forging the Tempest team. For a start-up Company with ambitious goals, finding and recruiting the key individuals needed to launch a full-cycle exploration program from scratch, and creating the right personal chemistry to fuse these talented individuals into a productive, value-creating team, is of transcendent importance. This goes far beyond any one play or well.

Fortunately, the essential exercise of team-building met with full success. Management was recruited throughout 2000 and the team was fully complete by the end of the year. As of mid April 2001, the team has generated multiple prospects, participated in drilling eight wells and negotiated three farm-in agreements. You will read more about the members of the team throughout the pages of this annual report.

THE TEMPEST BUSINESS MODEL

Tempest was founded with the goal of creating value through a niche-based approach to full-cycle exploration. The plan was to raise funds in the equity markets, identify suitable prospects for exploration and development, acquire undeveloped lands, then proceed with drilling, production and further exploitation. Our longer-range objective is to create a sustainable oil and natural gas company that grows profitably and continues to generate value, compensating the shareholders who took the initial risks in getting the venture off the ground.

At the same time, we realize there have been good opportunities for investors in junior oil and natural gas producers to realize added value through the industry's ongoing consolidation. Many of the companies being acquired have a strong asset base and cash flow, but lack market recognition.

Tempest has an ambitious model given the prevailing weakness in the capital markets and the highly competitive operating environment in the Western Canadian Sedimentary Basin. We believe our prospects for success are stronger because of our track record as a team.

In early 1996, Earl Fawcett, Harley Winger and I were founders of Tier One Energy Corp., an oil and natural gas exploration company capitalized through an A-B structure. In a period of only three-and-a-half years, the Tier One team created an asset base and profit stream that drove Tier One's class A share price from $0.40 per share in 1996 to $4.50 per share in 1999, and its market capitalization from $5 million to $32 million in the same period. In November 1999, Tier One was purchased by a senior Canadian oil and natural gas producer, realizing great value for Tier One's shareholders.

The management team of Tier One perceived that this experience could become the basis of a successful and repeatable business model. Many of the Canadian industry's successful, large-cap independents and mid-cap royalty trusts are growing partly or largely through acquisitions. At the same time, the mid-cap exploration companies have all but disappeared, while the juniors have declined precipitously in number. We saw that this in itself created an opportunity to repeat the Tier One experience, creating a new company that was profitable and sustainable in its own right, but that after a period of growth might appeal to the larger "harvesters," creating

Earl C. Fawcett
Director and Promoter

Harley L. Winger
Director and Promoter

A. Scott Dawson
President, Chief Executive Officer, Director and Promoter

additional value for our shareholders. With this in mind, in June 2000, we launched a private company with the senior people of Tier One, augmented with two additional senior geologists and a seasoned landman. Our intention was to take it public and repeat the Tier One story.

SUCCESS IN THE CAPITAL MARKETS

The most important financial issue in 2000 was Tempest's initial public offering, which closed in December and raised gross proceeds of $7.1 million. Of this amount, $6.5 million consisted of class B flow-through shares issued at $10 per share. Under the flow-through structure, Tempest renounces tax pools worth an amount equal to the proceeds of the class B share issue. The tax benefits accrue to shareholders. In return, Tempest must conduct exploration activities equal in cost to the renounced tax pools before December 31, 2001.

Tempest employed the flow-through model because it is a proven start-up vehicle that works in today's capital markets. Because the A-B share structure limits dilution during the capital acquisition phase, exploration success can have a significant impact on shareholder value. This approach also helps attract and hold key people. The class B flow-through shares are convertible to class A common shares at Tempest's discretion after December 31, 2003, at the shareholders' discretion after December 31, 2005, and automatically after January 31, 2006.

It was very satisfying to see the capital markets endorse the Tempest business model through the success of the Company's initial public offering, particularly during these times of few new equity issues. It is at once an expression of confidence in our track record of creating value and a very strong challenge for us to do so again. Indeed, most new oil and gas endeavours today are being launched as private companies.

OPERATING STRATEGY - FIRST STEPS TAKEN IN 2000

Our flow-through shares require Tempest to expend the capital we raised on exploration - this includes wildcat wells, exploitation of by-passed pay, re-entries into deeper zones and proprietary seismic. These funds will be complemented by our recently established bank line, which will permit us to make strategic acquisitions of properties offering exploration potential and will fund tangible equipment and land purchases.

The intense drilling of shallow oil and natural gas prospects in the W4M belt may appear to have reduced the opportunities available to newcomers, but we believe it has created a kind of qualitative "filter" that can allow imaginative niche players to find overlooked prospective areas. As well, the technical enhancements of today's seismic and drilling technologies, which are also helping to improve success rates, are allowing smaller companies to affordably participate in deeper plays in the higher-reward and under-explored W5M and W6M corridors.

Tempest's initial operational strategy is to assemble two to three core operating areas to explore for new oil and natural gas reserves. This operational focus will permit us to attain local dominance and control of key infrastructure, reducing unit costs over the long term. Our key prospect criteria are medium and balanced exploration risk, multi-zone potential and repeatability of the play model. This allows us to increase returns and reduce risks and costs with each similar play, in contrast to hit-or-miss one-off play types. Further, we will generate prospects internally, maximizing potential rewards through operatorship and high working interests. One of our principal geological focuses will be "by-passed pay," to capture unexplored hydrocarbon-bearing zones in previously drilled areas.

Tempest has also drawn up economic criteria governing all new prospects, including upper limits for cash costs, economic hurdle rates and maximum acceptable time-to-production schedules. The goal is to attain low finding and development costs, thereby maximizing efficiencies, cash available for reinvestment and ultimately, shareholder value.

Despite the very limited time available to the new Tempest team in 2000, we took important steps towards assembling a group of exploration prospects, launched our first drilling program and, in fact, achieved a modest volume of production before year-end.

Tempest invested just under $156,000 to the end of 2000, acquiring properties at Fort Saskatchewan and Cooking Lake, Alberta. As part of the requirements of the Ontario Securities Commission related to start-up junior resource issues, Tempest was obliged to spend at least $60,000 in exploration expenditures prior to completing its initial public offering. Accordingly, we farmed-in on two plays. The first resulted in a dry and abandoned (0.2 net) well; the second, a farm-in at Chipman, resulted in an exploration discovery well in February, 2001.

I am unable at this time to supply more detailed information on our operating activities for competitive reasons. However, we will keep our shareholders informed once our land positions are secured.

THE TEMPEST TEAM

People are important to any organization, but in a small start-up company, each individual is crucial. At Tempest, we genuinely see exploration success as flowing from the ideas generated by individuals. These ideas are then developed into coherent and economically viable plays through the interaction of the team members. Apparent opportunities lie all over the Western Canadian Sedimentary Basin, but rushing headlong into the drilling phase can break a small company, evaporating shareholders' capital. The difference between dry holes and productive wells lies in the imagination, discrimination and discipline of a Company's technical team.

That is why Tempest's business model has placed so much emphasis on creating the kind of team that will genuinely pool the talents of its individual members.

I'd like now to introduce the team to Tempest's shareholders:

- Gerald Costigan, Vice President, Exploration, is a highly successful and experienced explorationist with

Gerald R. Costigan
Vice-President, Exploration

D. Robert Pinckston
Exploration Manager

J. Chris Willmann
Consulting Geophysicist

over 20 years in oil and gas petroleum exploration, exploitation and development. His drive and enthusiasm are compelling.

- Robert Pinckston, Exploration Manager, with whom Gerald has worked in the past, is a prolific oil and gas finder. He is continually exploring ways to expand Tempest's inventory of quality opportunities.

- Earl Fawcett, founder and member of the Board of Directors, is arguably one of the top hydrocarbon finders in Alberta's W4M Region. Earl will serve as both a Tempest director and the third member of the exploration team.

- Chris Willmann, our in-house consulting geophysicist with 25 years of interpretive geophysical skills, helps to nurture our prospect inventory and fine tune drilling locations.

- John Ramescu, Vice President, Land. This is a crucial position for a start-up company trying to grow cost-effectively in a competitive market. John is a seasoned veteran with a top-tier reputation for building relationships, negotiating deals and, very importantly, an ability to keep the flow of land deals moving.

- Richard Dahl, Vice President, Engineering and Operations, will play a key role in maintaining profitable operations by imposing economic hurdle criteria on proposed projects. Richard has considerable experience in relationships with field personnel. His ability to bring projects in on-time and on-budget are unsurpassed.

- Douglas Penner, Chief Financial Officer, will exert the necessary financial control to ensure that our shareholders' capital and our subsequent cash flow are well-administered and continue to meet our corporate objectives.

- Harley Winger, a seasoned securities lawyer with in-depth knowledge of the A-B share structure, was instrumental to the success of Tempest's initial public offering. Harley was also the initiator of the Tier One A-B deal and we are fortunate to once again access his guidance as a Tempest director.

All of our team members own stock which creates pride of ownership and increases the incentive to perform. Management members hold the majority of Tempest's class A shares. Salaries are low in relation to industry peers and job security is tied to exploration and financial success.

FINANCIAL RESULTS AND LIQUIDITY

Given our very short production history, Tempest has very few financial results to report for 2000. Tempest acquired a property at Fort Saskatchewan in November 2000 for $15,000. We subsequently invested an additional $12,867 in the property, generated cash flow of nearly $19,000 after only two months of production.

Tempest incurred no salary expenses in 2000. General and administrative costs totalled $16,756, the bulk of which consisted of head office lease costs starting in December. Tempest generated cash flow of $2,085 for the year. The $50,000 net cost of our unsuccessful first well was fully written off and charged against net income. Depletion relating to production amounted to $1,586, resulting in a net loss, after tax, of $28,097 for the year.

THE WAY AHEAD

Tempest is well-financed to advance its operational plan. In addition to the equity proceeds on hand, the Company has a non-revolving acquisition/development demand loan totalling $5 million, of which up to half can be used to develop reserves generated through exploration or acquisition, and the balance can be employed for strategic acquisitions. We now have seven salaried staff on payroll, but we will strive to keep our general and administrative expenses low, maximizing capital and cash flow available for investment in exploration and development.

The current year will be a very challenging one as we seek to invest the $6.5 million in flow-through share proceeds in a cost-effective manner that will generate returns for shareholders. Tempest has budgeted a capital program totalling $8 million in 2001, of which the balance of $1.5 million is budgeted to come from cash flow generated by production from successful drilling and acquisitions or, if necessary, the Company's banking facility.

During the first quarter of 2001 Tempest participated in a total of five (2.7 net) wells, which resulted in one oil well at Chipman, three potential natural gas wells at Red Earth and one well at Lloydminster which is under evaluation. The drilling program will earn Tempest 22,880 gross acres of undeveloped land through farm-ins, thereby beginning to form a substantial land base for further drilling. The Chipman property is now producing at a restricted rate of 25 barrels of oil per day net to Tempest, and has strong potential for follow-up horizontal drilling that should provide Tempest with a meaningful production base by mid-year.

Chipman will be our primary engine of cash flow growth through the balance of 2001. Subsequent to our first exploration success, we shot ten square kilometres of 3D proprietary seismic to enhance our geologic understanding and competitive advantage. This led to Tempest defining two new exploration locations which will be drilled in Q2 2001, providing our technical team with a clearer pool orientation and understanding of the scope of our first exploration success. At least one horizontal well will be drilled into this pool to confirm the viability of horizontal technology.

Our goal is to exit 2001 with Company production at 300 barrels of oil equivalent per day. Commodity prices are almost universally forecast to remain strong through 2001, a situation that is very conducive to exploration drilling and that promises rapid pay-out of successful natural gas or oil wells. This is offset somewhat by the higher costs for undeveloped land and field services that result from the intense level of industry activity we are seeing.

Richard H. Dahl
Vice-President, Engineering and Operations

John Ramescu
Vice-President, Land

I am very optimistic about Tempest's future given our successes to date. We have assembled a strong team, identified a number of high quality prospects and have successfully launched our exploration program.

I would like to extend my sincere thanks to the members of the Tempest team for their commitment to our corporate vision, to our seasoned Board of Directors for their crucial role in the start-up of this new venture, and to you, the shareholder, for your belief in the Tempest model for creating value.

I am also grateful to Tom Budd of GMP, with whom I have been involved professionally for some 15 years, who undertook the Tempest financing with "true grit".

On behalf of the Board of Directors,

A. Scott Dawson
President and Chief Executive Officer
April 23, 2001

Operations Review

As a start-up oil and natural gas exploration company in a high commodity price environment, Tempest will internally generate prospects that can be accessed through farm-ins or Crown land postings. As the Company matures, we will acquire additional lands and infrastructure that complement our full-cycle exploration program.

Tempest's longer-term strategy is to achieve profitable, cost-effective exploration success based on the following:

- Focus activities in selected geographical areas, creating a competitive advantage by maximizing the technical team's geological and operational knowledge base;
- Within the selected areas, focus on medium-risk prospects - particularly natural gas-prone prospects - that are mappable through seismic interpretations and that offer multi-zone potential and repeatable play models. After generating prospects, aggressively build a base of key undeveloped lands, complemented by accretive and strategic property acquisitions. This combination optimizes the investment of risk dollars and offers the best chances of creating a sustainable growth platform;
- Operate in areas offering control of infrastructure, which enhances cost control and creates a strategic operating advantage and where there are opportunities to acquire land through farm-ins with potential to expand;
- Maintain control of the exploration program's quality and timing by internally generating and operating all new prospects. This in turn helps to control finding and development costs; and
- Maintain high working interest to maximize exposure to the cash flow and earnings generated by program success.

Key Properties

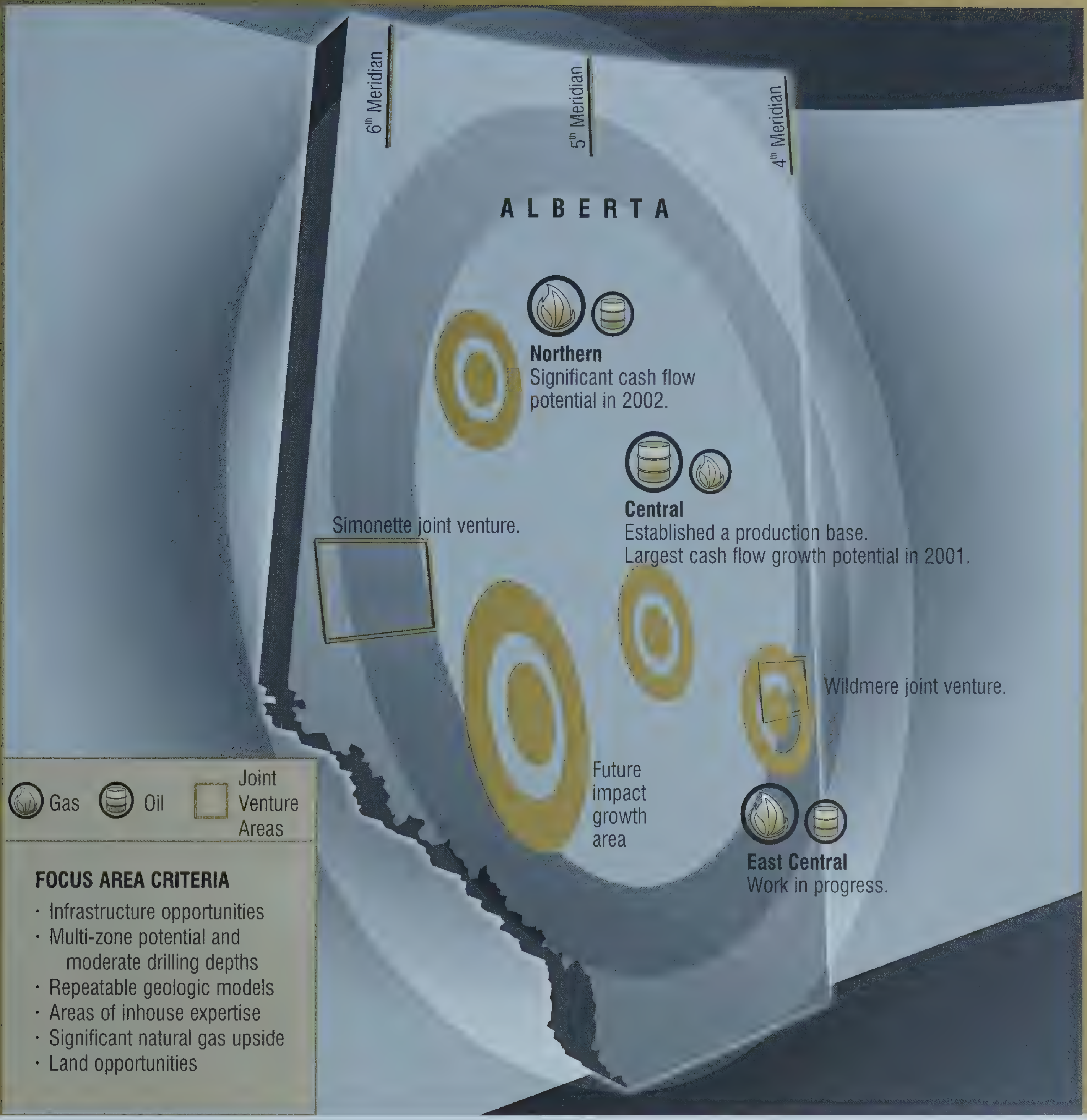
Central - Chipman - Oil

In November 2000, Tempest concluded a farm-in agreement on 3.5 sections (2,240 acres) of land held by Point Bar Petroleums Ltd., a private company controlled by Earl Fawcett, a director of the Company. Under this agreement, Tempest would bear 100 percent of exploration costs to earn a working interest of 80 percent in the undeveloped lands. In February 2001, following re-processing of existing 2D seismic data, Tempest drilled and cased its first exploratory well, which made a new pool discovery. Following this well Tempest shot a ten square kilometre proprietary 3D seismic program, which helped the Company generate two new drilling locations and confirmed potential for development through horizontal drilling.

Tempest is required to spend $1.2 million of capital on Chipman to complete its farm-in obligation, and to date has spent $0.8 million. Based on analogous pools, the preliminary estimates suggest this play has significant recoverable reserves potential. The Company has ambitious plans for Chipman for the second quarter of 2001, including refining its geological model through the drilling of two vertical exploration wells and one horizontal development well, consolidating its land position and prospecting for repeatable play opportunities in the area. In the third and fourth quarters of 2001 Tempest plans to evaluate drilling results, install production facilities and continue with further horizontal development drilling.

Northern - Red Earth - Natural gas

In January 2001, Tempest negotiated a farm-in agreement with a major producer for a 50 percent working interest on 28 sections of shallow natural gas-prone lands. Tempest is seeking by-passed, uphole natural gas potential in an established oil-producing area. A similar play to the north has so far produced 70 billion cubic feet of natural



FOCUS AREA CRITERIA

- Infrastructure opportunities
- Multi-zone potential and moderate drilling depths
- Repeatable geologic models
- Areas of inhouse expertise
- Significant natural gas upside
- Land opportunities

gas. As of the first quarter of 2001 Tempest had drilled and completed three of four planned earning wells. Tempest anticipates generating cash flow from this play in 2002.

East Central - Natural gas and heavy to medium oil targets

Tempest has developed several potential plays in the gas-prone lands of east central Alberta. To date, the Company has drilled and cased one exploration well and has posted Crown lands for sale later in 2001.

West Five - Multi-zone natural gas and light oil

Tempest is interested in participating in the deeper 1,500-2,500 metre plays of the western deep basin regions in Alberta. The area lends itself to exploration by the in-house expertise of Tempest's technical team. To date, the Company has identified a number of prospects and has made farm-in offers to several companies with landholdings in this area.

Management's Discussion and Analysis

EQUITY

The successful closure of the Company's initial public offering on December 21, 2000, allowed Tempest to raise $7,903,000 in total equity by year-end, before share issue costs of $696,558. Total equity raised included $7.1 million from the initial public offering and $0.8 million from founders' shares. At December 31, 2000, there were 6,841,200 class A shares outstanding, of which 2,841,200 comprised the public float.

As part of the initial public offering Tempest issued 653,476 class B flow-through shares at a price of $10.00 per share. The Corporation renounced tax pools worth $6,534,760 effective December 31, 2000, in Canadian Exploration Expense (CEE) to the holders of these class B shares. Of the renounced CEE, $5,534,760 was direct CEE and $1,000,000 was Canadian Development Expense deemed to be CEE. The Corporation has until December 31, 2001 to expend funds equal to these renounced expenditures.

The class B shares are convertible (at the option of the Corporation) at any time after December 31, 2003 and before December 31, 2005, into class A shares. The ratio is calculated by dividing $10 by the greater of $1 and the then current market price of class A shares. If conversion has not occurred by the close of business on December 31, 2005, the class B shares become convertible (at the option of the shareholder) into class A shares on the same basis. Effective on February 1, 2006, all remaining class B shares will automatically be converted to class A shares.

In January 2001, the Company granted 739,120 class A stock options at $0.40 per share to employees and directors of the Corporation. Also, an additional 200,000 class A shares were issued to employees and consultants at $0.20 per share in January, bringing the total number of outstanding class A shares to 7,041,200.

CAPITAL EXPENDITURES

The Corporation expended $155,827 in capital to December 31, 2000, of which $15,000 was spent on the acquisition of the Fort Saskatchewan property and $46,182 was spent on the acquisition of the Cooking Lake property. The majority of the balance was spent on drilling one well (0.2 net) at St. Anne, Alberta through a farm-in with Ionic Energy Inc. This well was dry and abandoned in October 2000.

Tempest's 2001 capital program is planned at $8.0 million. Of this amount, $6.5 million has been funded through the issue of the class B shares and the balance will be funded by cash flow and, if necessary, the Company's banking facility. The bank will provide development funds based on the Corporation's proven reserves from successful exploration and exploitation efforts. Tempest intends to develop a production base by the end of the second quarter that will allow it to self-fund general and administrative costs. The Corporation is committed to spending capital in accordance with its flow-through obligations in 2001.

Tempest had capital expenditures in Q1 2001 of approximately $2.0 million, the majority of which was allocated to exploration, including drilling five (2.7 net) wells and $450,000 on a 10 square kilometre 3D proprietary seismic program. Of the wells drilled, one (0.8 net) well in Chipman was cased as an oil well, which was followed up with a proprietary 3D seismic program. In Red Earth, Tempest drilled three (1.4 net) wells on our major oil and gas company farm-in, resulting in three (1.4 net) cased potential natural gas wells. In our East Central Alberta area, Tempest drilled one (0.5 net) wells on farm-in, which was cased for potential oil.

Christina Anderson
Executive Assistant

Douglas N. Penner
Vice-President, Finance and Chief Financial Officer

CAPITAL EXPENDITURES *($ thousands)*	**Year ended December 31, 2000**	2001 Forecast
Drilling & completions	**$ 135**	$ 6,000
Equipment & facilities	**13**	1,000
Land	**8**	500
Geological & geophysical	**-**	500
Total capital expenditures	**$ 156**	$ 8,000

RESERVES

(Net present value, before tax, $ thousands)	Oil and NGLs *(mbbls)*	Natural Gas *(mmcf)*	Discounted at 0%	Discounted at 10%	Discounted at 15%
Proved producing	-	81.7	187.8	169.2	161.4
Proved non-producing	-	437.0	564.2	360.2	284.8
Total proved	-	518.7	752.0	529.4	446.2
Probable	-	19.0	27.0	21.0	18.8
December 31, 2000*	-	537.7	779.0	550.4	465.0
**Includes Alberta Royalty Tax Credits*			*108.0*	*86.6*	*78.6*

RISK AND LIQUIDITY

Tempest reduces exploration risk by employing a team of highly qualified and experienced professionals to pursue exploration and exploitation activities and to plan, conduct and control capital expenditures. Exploration projects are reviewed at a very early stage, covering all aspects including: corporate fit, environmental issues, timing, costs and reward potential. Identified risks are addressed and excessive risks are minimized before any project is approved.

Operational risk is mitigated as Tempest staff address the continued development of new or established reservoirs, on a go-forward basis, in the same careful and calculated manner as exploration risk. Tempest determines reservoir development based on the economic valuation of the project. Finding and development costs are controlled when capital is employed with discipline.

These strong exploration and development controls will ensure Tempest's ability to employ its capital as required to meet flow-through obligations.

The financial risks of commodity prices and interest rates are largely beyond Tempest's control. The Company's approach to managing these risks will be to maintain a prudent level of debt and to employ conservative forecasting and budgeting projections. In order to facilitate the development of Tempest's reserves, the Corporation entered into a $5,000,000 non-revolving acquisition/development demand loan bearing interest at prime plus 3/4%, of which $2,500,000 was the maximum allowable amount for reserve development as of February 14, 2001. The loan requires monthly principal repayments over the half-life of the petroleum reserves being financed, to a maximum of 48 months. This credit facility is repayable on demand and is secured by a first fixed and floating charge debenture in the minimum face amount of $20,000,000. Currently the $5 million line remains undrawn.

Corporate assets are also protected through adequate corporate insurance as well as a proactive approach to all safety and environmental issues.

REVENUES, ROYALTIES AND OPERATING EXPENSES

The Fort Saskatchewan property, which was purchased on November 1, 2000 for $15,000 and received an additional $12,867 in capital investment, was Tempest's only source of production revenue, royalties and operating expenses for the year ended December 31, 2000. Tempest produced 4,612 mcf of natural gas from this property to December 31, 2000, resulting in sales revenue of $34,130. The Company received a sales price $7.40 per mcf in the spot market. Royalty costs on this production were $11,239 (an effective rate of 33%), generating net revenue of $22,891. After deducting $4,050 of operating costs, cash profits totalled $18,841 from only two months of production.

In February 2001, Tempest's new Chipman property started on production from a vertical oil well at a restricted rate of approximately 25 barrels per day net. Two additional new anomalies will be tested in the second quarter and follow-up horizontal drilling is aimed at providing Tempest with a production base by the end of the second quarter of 2001.

Tempest has a high exploration focus, which will continue for the balance of the year due to the nature of the class A-B capital structure. However, based on the Company's initial development successes and planned follow-up activity in 2001, Tempest expects to exit the year with production of approximately 300 boe per day.

GENERAL AND ADMINISTRATIVE EXPENSES

Tempest had no salaried employees in 2000. Tempest hired seven employees, starting in January 2001, none of whom earn more than $75,000 per year. Office space was leased, starting in December 2000, at $8,960 per month; the lease expires in April 2004. Shareholders should expect Tempest's general and administrative costs in 2001 to be equivalent to those of the Company's industry peers and commensurate with those of a start-up entity.

INTEREST INCOME AND EXPENSE

The funds raised to start the Company are invested in 30-day Bankers' Acceptances yielding 5.68% per annum at December 31, 2000, and will be drawn down to pay for expenditures as they are incurred. Effective February 28, 2001, interest is payable to the government on flow-through funds that remain unexpended at the end of each month, on a declining balance, at the government's stated rate, which was 8% per annum at December 31, 2000. Tempest estimates that the net interest costs to the Company in 2001 will be under $75,000.

DEPRECIATION, DEPLETION AND SITE RESTORATION

Corporations calculate depreciation, depletion and site restoration based upon capital expenditures, production rates and reserve size. Tempest recorded $1,586 in depletion for the year ended December 31, 2000 on 767 boe of production. Tempest anticipates that our depreciation, depletion and site restoration will fall into the typical range of $5.00 to $8.00 per boe, as is normally found in the industry.

INCOME AND OTHER TAXES

Tempest anticipates expending $8.0 million in capital in 2001, of which $6.5 million will have no associated tax pools due to the initial flow-through class B tax pool renouncements. The discretionary additional capital expenditures of $1.5 million, as well as general and administrative charges, are anticipated to offset tax liabilities in 2001. Taxes payable beyond 2001 will become a function of commodity prices, production volumes and capital expenditures.

A corporation is subject to large corporations capital tax of 0.2 percent per year when its stated capital exceeds $10 million. Tempest does not anticipate this will occur until 2002.

CASH FLOW AND NET LOSS

Tempest generated cash flow from operations of $2,085 for the year ended 2000. This generated a loss, after a $50,000 write down of a dry hole, of $1,586 in depletion and tax recovery of $21,354 of $28,097.

When a company follows the full cost method of accounting, as Tempest does, the cost of all wells, both successful and unsuccessful, are added to the capital base and depleted at the rate of production over the remaining oil and gas reserves. A ceiling test is then employed to ensure that the carrying value of capital assets in the financial statements does not exceed the undiscounted estimated future net revenue from proven reserves. With no reserves in October of 2000, and a dry hole on its first drilling location at St. Anne, Alberta, Tempest charged the $50,000 drilling cost against 2000 net income, as disclosed in the initial public offering documents.

To ensure future profitability, Tempest will strive to economically find, develop and exploit reserves, will keep cash costs and administration to a minimum, and will thereby maximize future netbacks, cash flow and net income.

Auditors' Report to the Shareholders

We have audited the balance sheet of Tempest Energy Corp. as at December 31, 2000 and the statements of operations and deficit and cash flows for the period of incorporation on June 15, 2000 to December 31, 2000. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2000 and its cash flows for the period of incorporation on June 15, 2000 to December 31, 2000 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
April 4, 2001

BALANCE SHEET

ASSETS *(As at December 31, 2000)*	
Current assets:	
Cash and term deposits	$ 7,107,390
Prepaid and deposits	57,578
Accounts receivable	39,403
	7,204,371
Capital assets (note 3)	104,291
	$ 7,308,662

LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable and accrued liabilities	$ 151,671
Future income taxes (note 5)	2,582,484
Shareholders' equity:	
Share capital (note 4)	4,602,604
Deficit	(28,097)
	4,574,507
Commitments (note 6)	
Subsequent events (note 8)	
	$ 7,308,662

See accompanying notes to financial statements.

Approved on behalf of the Board:

Director
A. Scott Dawson

Director
Harley L. Winger

STATEMENT OF OPERATIONS AND DEFICIT

(For the period of incorporation on June 15, 2000 to December 31, 2000)

Revenues:	
Petroleum and natural gas	$ 34,130
Royalties	(11,239)
	22,891
Expenses:	
Operating	4,050
General and administrative	16,756
Depletion and depreciation	51,536
	72,342
Loss before income tax	49,451
Future income tax reduction (note 5)	21,354
Net loss and deficit for the period	$ 28,097
Loss per share:	
Basic and fully diluted	$ -

STATEMENT OF CASH FLOWS

(For the period of incorporation on June 15, 2000 to December 31, 2000)

Cash provided by (used in):	
Operations:	
Net loss	$ (28,097)
Items not involving cash:	
Depletion and depreciation	51,536
Future income tax recovery	(21,354)
Funds from operations	2,085
Change in non-cash working capital	54,690
	56,775
Financing:	
Issue of Class A shares, net of issue costs	$ 671,682
Issue of Class B shares	6,534,760
	7,206,442
Investment:	
Capital assets	(155,827)
Change in cash and term deposits, end of period	$ 7,107,390

See accompanying notes to financial statements.

(For the period of incorporation on June 15, 2000 to December 31, 2000)

1. Incorporation and amalgamation:

Tempest Energy Corp. (the "Corporation") was incorporated under the laws of the Province of Alberta on June 15, 2000 as Serious Energy Corp. On October 17, 2000, the Corporation filed Articles of amendment changing its name to Tempest Energy Corp. and amending its capital structure to create the Class A and Class B shares. On December 1, 2000, the Corporation filed Articles of Amendment to remove the private company provisions.

2. Significant accounting policies:

(a) *Basis of presentation:*

The Corporation's activities for the year ended December 31, 2000 are related to acquisition of, exploration for and development of petroleum and natural gas properties. The Corporation follows the full costs method of accounting for petroleum and natural gas operations.

All future costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized into a cost centre. Such costs include those related to lease acquisition, geological and geophysical activities, lease rentals on non-producing properties, drilling of productive and non-productive wells, tangible production equipment, and that portion of general and administrative expenses directly attributable to exploration and development activities. Proceeds received from the disposal of properties are normally deducted from the full cost pool without recognition of a gain or loss. When a significant portion of properties is sold, a gain or loss is recorded and reflected in the statement of earnings.

Costs of acquiring unproved properties are initially excluded from the full cost pool and are assessed yearly to ascertain whether impairment has occurred. When proved reserves are assigned to the property or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the full cost pool. Depletion of petroleum and natural gas properties and depreciation of production equipment are calculated using the unit-of-production method based upon estimated proved reserves, before royalties, as determined by an independent engineer. For purposes of the calculation, natural gas reserves and production are converted to equivalent volumes of petroleum based upon relative energy content.

The Corporation annually applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed the costs of unproven properties plus future net revenues from production of proved reserves at year end product prices less future administrative, financing and site restoration and income tax expenses.

Substantially all of the Corporation's exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

(b) *Future site restorations and abandonment costs:*

Site restoration and abandonment costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Corporation's engineers based on current regulations, costs, technology and industry standards. The period charge is expensed and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

2. Significant accounting policies (continued):

(c) Future income taxes:

The Corporation uses the liability method of tax allocation accounting. Temporary differences arising from the differences between the tax basis of an asset or liability and the carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

(d) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Future tax liabilities and share capital are adjusted by the estimated cost of the renounced tax deductions when the shares are issued.

(e) Per share amounts:

The Corporation has applied the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations.

(f) Measurement uncertainty:

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

3. Capital assets:

	Cost	Accumulated Depletion	Net Book Value
Petroleum and natural gas properties	$ 155,827	$ 51,536	$ 104,291

Included in accumulated depletion is a $50,000 ceiling test write-down, which was the result of no proven reserves being attributed to the Corporation's first exploration well.

The costs of unproven lands at December 31, 2000 of $nil have been excluded from the depletion calculation.

As at December 31, 2000, the estimated future site restoration costs to be accrued over the life of the remaining proved reserves are $5,000 of which $nil is included in depletion in the current year.

4. Share capital:

(a) Authorized:

Unlimited number of preferred shares.

Unlimited number of voting Class A shares.

Unlimited number of voting Class B shares, convertible (at the option of the Corporation) at any time after December 31, 2003 and before December 31, 2005, into Class A shares. The fraction is calculated by dividing $10 by the greater of $1 and the then current market price of Class A shares. If conversion has not occurred by the close of business on December 31, 2005, the Class B shares become convertible (at the option of the shareholder) into Class A shares on the same basis. Effective February 1, 2006, all remaining Class B shares will automatically be converted to Class A shares.

(b) Issued and outstanding:

	Number of Shares	Amount
Class A shares:		
For cash as initial private capital	2,500,000	$ 500,000
For cash on private placement	1,500,000	300,000
For cash pursuant to public offering	2,841,200	568,240
Share issue costs	-	(696,558)
Tax effect of the share issue costs	-	310,665
Balance, December 31, 2000	6,841,200	$ 982,347
Class B shares:		
For cash pursuant to public offering	653,476	$ 6,534,760
Tax effect of flow-through shares		(2,914,503)
Balance, December 31, 2000	653,476	$ 3,620,257
Total share capital on December 31, 2000		$ 4,602,604

(c) Shares in escrow:

Of the common shares issued to date, 4,000,000 shares are held in escrow and may not be released from escrow and traded without the written consent of the appropriate regulatory authorities.

5. Income taxes:

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate of 44.6% to income before income taxes. The difference relates to the following items:

Statutory tax rate	44.6%
Expected recovery	$ 22,055
Other	(701)
	$ 21,354

The components of the net future income tax liability at December 31, 2000 is as follows:

Exploration and development costs renounced under flow-through share agreements (note 6)	$ 2,893,149
Share issue costs	(310,665)
Future income tax liability	$ 2,582,484

6. Commitments:

Pursuant to the initial public offering which closed on December 21, 2000, the Corporation issued 653,476 Class B flow-through shares for gross proceeds of $6,534,760. The Corporation renounced $6,534,760 to the Class B shareholders, effective December 31, 2000. The Corporation has until December 31, 2001 to expend funds on qualified expenditures equal to these renouncements.

The Corporation has entered into Participation Agreements and Reciprocal Agreements with Ionic Energy Corp. ("Ionic"). Pursuant to these agreements, which terminate no earlier than March 31, 2002, the Corporation has to offer Ionic up to 50% of the interest available to the Corporation in all drillable prospects pursued by the Corporation, up to an amount equal to 50% of the gross proceeds of a proposed initial offering of shares, while Ionic is obliged to offer the Corporation interests in a sufficient number of drilling prospects which would enable the Corporation to spend up to 50% of the gross proceeds of its initial public offering.

Future minimum lease payments relating to operating lease commitments on the building are:

2001	$ 107,513
2002	107,513
2003	107,513
2004 and thereafter	35,838
	$ 358,377

7. Financial instruments:

(a) Foreign currency exchange risk:

The Corporation is exposed to foreign currency fluctuations as crude oil and natural gas prices received are referenced to U.S. dollar denominated prices.

(b) Credit risk:

A substantial portion of the Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Corporation's natural gas, crude oil and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

(c) Fair value of financial instruments:

The carrying amounts of financial instruments included on the balance sheet approximate their fair value due to their short-term maturity.

8. Subsequent events:

(a) In January 2001, the Corporation issued 200,000 Class A shares at $.20 per share for proceeds of $40,000.

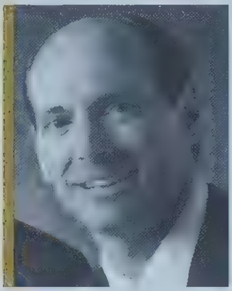
(b) In January, 2001, the Corporation entered into stock option agreements with employees and directors of the Corporation issuing 739,120 options at $0.40 per Class A share expiring in 2006. These options shall vest one-third per year.

(c) Subsequent to year end, the Corporation obtained a $5,000,000 non-revolving acquisition/development demand loan, bearing interest at bank prime rate plus 3/4%. The loan requires monthly principle repayments over the half-life of the petroleum reserves being financed, but in no event longer than 48 months. This credit facility is repayable on demand and is secured by a first fixed and floating charge debenture in the minimum face amount of $20,000,000.

(d) The Corporation has entered into an agreement with a director whereby the Corporation will earn an 80% working interest after the Corporation incurs $1.2 million of capital. In consideration, the director retains a 2% gross overriding royalty and an 18% working interest.

Directors/Management

A. Scott Dawson, President, Chief Executive Officer and Director



Mr. Dawson is a Professional Engineer with 17 years of extensive experience in western Canadian oil and gas engineering. Mr. Dawson was co-founder, President and Chief Executive Officer of Tier One Energy Corp., a public oil and gas company which commenced operations in October 1996 with 15 boe per day of production. Tier One was sold three years later for $32 million. At the time of sale, the Company was producing 1,000 boe per day, with potential for approximately 1,500 boe per day of infill drilling. The company also had unrisked proved plus probable reserves of 4.1 million boe achieved at an average finding cost of less than $5 per boe.

Prior to co-founding Tier One, Mr. Dawson was Engineering Manager from 1989 to March 1996 at HCO Energy Ltd., a public oil and gas company, where he was responsible for production operations, identifying and evaluating acquisitions, oil and gas marketing and implementing several horizontal drilling programs. From 1983 to 1988 Mr. Dawson was a production engineer for Westmin Resources Ltd., and its predecessor Sundance Oil Canada Ltd. Mr. Dawson is a member of APEGGA.

Gerald R. Costigan, Vice President Exploration

A Professional Geologist with over 20 years of extensive oil and gas exploration and development experience, Mr. Costigan has a diverse international background. At Gulf Canada he was involved in a highly successful exploration and exploitation program in Alberta, British Columbia, the Mackenzie Delta, the Beaufort Sea and Canada's offshore East Coast. Internationally, Mr. Costigan also played a key role in Gulf's entry into Indonesia and North Africa. Gulf's Horizontal Drilling Group, which was headed by Mr. Costigan in 1992, was responsible for adding over 4,700 barrels of oil per day of net production from nine highly prolific horizontal wells, including the Meekwap 9-19 well which set the Canadian Horizontal Production Record in 1993. Mr. Costigan also served as Exploration Manager with Tarragon Oil and Gas Ltd., where he played a key role in the company's rapid, highly profitable growth in south-central Alberta. When Tarragon was taken over by Marathon Oil, Mr. Costigan was appointed Vice-President, Exploration and successfully directed Marathon's extensive Canadian exploration program. Mr. Costigan is a member of APEGGA, CSPG and AAPG.

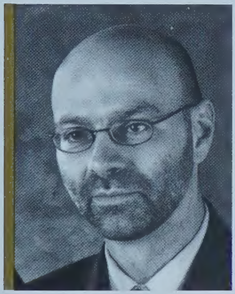
Richard H. Dahl, Vice-President, Engineering and Operations

Mr. Dahl is a professional engineer with over 13 years of experience in all aspects of oil and gas engineering, production and operations throughout western Canada. Prior to joining Tempest in October, 2000 Mr. Dahl founded and is the President of a private company involved in oil and gas engineering consulting and production. Prior to this Mr. Dahl held the position of Vice-President, Engineering and Operations with Tier One from August 1997 until Tier One was sold in November 1999. Mr. Dahl graduated with a Bachelor of Science degree in Civil Engineering from the University of Calgary in 1987. He has subsequently worked continuously as an engineer in the Alberta oil and gas industry in progressively senior roles with both junior and international oil and gas companies. Mr. Dahl is a member of APEGGA and The Society of Petroleum Engineers.

Douglas N. Penner, Vice-President, Finance and Chief Financial Officer

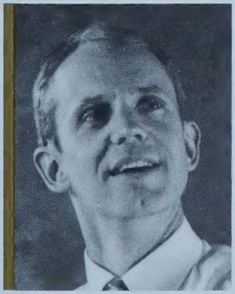
Mr. Penner holds a Chartered Accountant designation (1992), a Certified Internal Auditor designation (1995) and a Chartered Financial Analyst designation (1997). He articled with Ernst & Young before entering the petroleum industry with Amerada Hess Canada Ltd. When Amerada Hess Canada was purchased by Petro-Canada in 1996, Mr. Penner served as Senior Financial Accountant in charge of derivatives. He served as Controller of Tier One from June 1997 until the Company was sold to Northrock Resources Ltd. in November 1999. Before joining Tempest, Mr. Penner served briefly as Assistant Treasurer of Northrock and Controller of Ketch Energy Ltd.

John Ramescu, Vice-President, Land



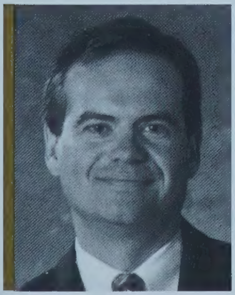
Mr. Ramescu has over 16 years of industry experience. Prior to joining Tempest in January 2001, Mr. Ramescu was Vice-President, Land and Business Development with Vermilion Resources Ltd., a public oil and gas company listed on The Toronto Stock Exchange. Previously, he was Land Manager with Ranger Oil Limited and Senior Landman with a number of companies, including Opinac Exploration Limited, Amoco Canada Petroleum Company, Ltd., and Dome Petroleum Limited. He is a member of CAPL

D. Robert Pinckston, Exploration Manager



In 12 years in the Alberta oil and gas industry, Mr. Pinckston has drilled hundreds of wells, mainly targeting natural gas. Mr. Pinckston has worked for a number of junior and senior companies, including Opinac Exploration Ltd., Tarragon Oil and Gas Ltd. and five years at Renaissance Energy Ltd. as a senior exploration geologist. Prior to joining Tempest, he was responsible for the discovery and development of a new gas project for Renaissance in W5M, which resulted in 25 mmcf/d of natural gas production and 1,200 bbls/d of natural gas liquids. Rob is a graduate of the University of Alberta in 1989 with a M.Sc. Degree. He is a member of APEGGA, CSPG and AAPG.

Earl C. Fawcett, Director

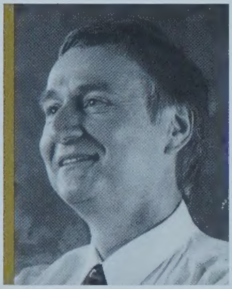


A Professional Geologist with over 16 years of extensive exploration and development experience throughout Southern and Central Alberta. Mr. Fawcett is currently the President of Point Bar Petroleums Ltd., a private family-held oil and gas company founded in 1987. Mr. Fawcett was a co-founder and the Vice-President, Exploration of Tier One Energy Corp., responsible for the initiation and execution of the highly successful exploration and development program. He is a member of APEGGA, CSPG and AAPG.

Harley L. Winger, Director

Mr. Winger has practised law in Calgary since 1978 and has been a partner of Burstall Winger LLP since 1990. Mr. Winger's principal area of practice is corporate and securities law. He was co-founder of Tier One Energy Corp. in October 1996. Mr. Winger is currently the secretary of Avid Oil & Gas Ltd. (TSE), Drillers Technology Corp. (TSE), OGY Petroleums Ltd. (TSE) and Tikal Resources Corp. (TSE) and a director of ABI Capital Corp. (CDNX), all of which are public companies.

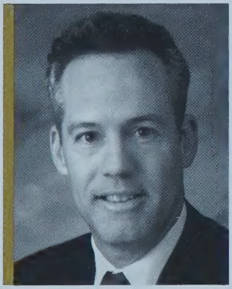
J. Chris Willmann, Consulting Geophysicist



Mr. Willmann has had an illustrious career in the geophysical industry since 1970, working for companies such as PanCanadian Petroleum and Norcen Energy Resources. At Norcen, Mr. Willmann was instrumental in finding the Colgate field in Saskatchewan as well as developing Norcen's Glauconitic pools in Southern Alberta. He also recommended the Arcs discovery well at Grandforks. In the Frontier and International division, Mr. Willmann was responsible for the development of the Jabiru oil field offshore Australia, as well as geophysical mapping of Norcen's interests in the Beaufort Sea and the East Coast.

As founder of Accurex Exploration Inc. in 1995, Mr. Willmann has provided oil and gas exploration and development consultancy services to start-up and micro-cap companies, such as Auburn Energy, OGY Petroleums, Place Resources Inc., Tier One Energy Corp., and Tusk Resources. He is a member of the SEG, CSEG, CSPG and EAGE.

Roger MacLeod, Corporate Secretary



Roger MacLeod obtained his Bachelor of Arts (Economics) degree with distinction in 1984 from the University of Calgary. He received his Bachelor of Laws degree from the University of Western Ontario in 1987, was called to the Ontario Bar in 1989 and the Alberta Bar in 1996.

Mr. MacLeod practices primarily in the areas of securities law with Burstall Winger LLP.

CORPORATE INFORMATION

DIRECTORS

A. Scott Dawson
President and Chief Executive Officer
Tempest Energy Corp.
Calgary, Alberta

Earl C. Fawcett
President
Point Bar Petroleums Ltd.
Calgary, Alberta

Harley L. Winger
Partner
Burstall Winger LLP
Calgary, Alberta

OFFICERS

A. Scott Dawson
President and Chief Executive Officer

Gerald R. Costigan
Vice President, Exploration

Richard H. Dahl
Vice President, Engineering and Operations

John Ramescu
Vice President, Land

Douglas N. Penner
Vice President, Finance & Chief Financial Officer

HEAD OFFICE

Suite 2350, 500 - 4th Avenue SW
Calgary, Alberta T2P 2V6
Tel: (403) 262-2936
Fax: (403) 262-3924

LEGAL COUNCIL

Burstall Winger LLP
Calgary, Alberta

AUDITORS

KPMG LLP
Calgary, Alberta

EVALUATION ENGINEERS

McDaniel & Associates Consultants Ltd.
Calgary, Alberta

BANKER

National Bank of Canada
Calgary, Alberta

TRANSFER AGENT

Computershare Investor Services
Calgary, Alberta

STOCK EXCHANGE LISTING

The Canadian Venture Exchange
Symbols: TMY.A, TMY.B

INVESTOR RELATIONS CONTACT

A. Scott Dawson
President and Chief Executive Officer
Tel: (403) 205-3704
Email: sdawson@tempestenergy.com

ABBREVIATIONS

boe	Barrels of oil equivalent
mbbls	Thousand barrels
mcf	Thousand cubic feet
mmcf	Million cubic feet
NGLs	Natural gas liquids

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TEMPEST ENERGY CORP.
#2350, 500 - 4th Avenue S.W.
Calgary, Alberta T2P 2V6
Telephone: (403) 262-2936
Fax: (403) 262-3924